

FMI STANDARD 6: MARGIN

FS6



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INTRODUCTION

Application

- i. This standard applies to every operator of a designated FMI that has been specified in its designation notice under [section 29\(2\)\(f\)](#) of Financial Market Infrastructures Act 2021 (the **Act**) as falling within the central counterparty class of designated FMI.

Legal powers

- ii. Under [section 8](#) of the Act the regulator is defined as the RBNZ and the FMA acting jointly.
- iii. [Section 12](#) of the Act provides the regulator's functions. These include regulating designated FMIs, dealing with designated FMIs that are distressed, and other functions under the Act.
- iv. Subject to certain statutory prerequisites, [section 31](#) of the Act empowers the regulator to make standards for designated FMIs.
- v. [Section 34](#) s sets out the matters that standards may deal with or otherwise relate to. [Section 34\(1\)\(e\)\(iii\)](#) provides that a standard may deal with, or otherwise relate to, the management by operators of credit risk. Margin can be used as a way of managing credit risk.

Interpretation

- vi. Words and phrases used in this standard have the same meaning as in the Act.
- vii. **Close out** means terminating or liquidating a contract, or net position under multiple contracts (including through the acceleration or termination of obligations under one or more contracts, or exercising rights to set-off or net financial exposures created under one or more contracts).
- viii. **Margin** means collateral that is collected to protect against current or potential future exposures resulting from market price changes or in the event of a counterparty default.
- ix. **Margin model** means an economic model used for calculating the amount of margin needed.
- x. **Margin system** means a system for managing transferring and holding margin, and includes the margin model.

Commencement

- xi. This standard comes into force on 1 March 2024.

REQUIREMENTS

- 1) An operator of a central counterparty must cover credit exposures to the central counterparty's participants for all products through an effective margin system that is risk-based and regularly reviewed.

Margin system

- 2) Further to the requirements in clause (1), an operator must have:
 - a) a margin system for the central counterparty that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market that it serves; and
 - b) a reliable source of timely price data for the central counterparty's margin system. An operator must also have policies and sound valuation models for the central counterparty that address circumstances in which pricing data are not readily available or reliable.

Initial Margin

- 3) Further to the requirements in clause (1), an operator must:
 - a) adopt initial margin models and parameters for the central counterparty that are risk-based and generate margin requirements sufficient to cover the operator's potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default; and
 - b) subject to clause (4), ensure that initial margin meets an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure; and
 - c) ensure that the initial margin models:
 - i) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the central counterparty (including in stressed market conditions); and
 - ii) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products; and
 - iii) to the extent practicable and prudent, limit the need for destabilising and procyclical changes.
- 4) In respect of the requirement in clause 3(b) the operator must ensure:
 - a) if margin is calculated at the portfolio level, the requirement is applied to each portfolio's distribution of future exposure; or
 - b) if margin is calculated at more granular levels, such as at the subportfolio level or by product, the requirement is applied to the corresponding distributions of future exposure.

Variation margin

- 5) Further to the requirements in clause (1) an operator must mark participant positions to market, and collect variation margin at least daily to limit the build-up of current exposures.

Margin call ability

- 6) Further to the requirements in clause (1), an operator must ensure that the central counterparty has the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.

Margin calculation

- 7) Further to the requirements in clause (1), an operator must:
 - a) only allow offsets or reductions in required margin across cleared products (including products cleared by the central counterparty or the central counterparty and a linked FMI) where the risk of one product is significantly correlated with the risk of the other product; and
 - b) if a central counterparty offers cross-margining, ensure the central counterparty has appropriate safeguards and harmonised overall risk management systems.

Review of the margin model and system

- 8) Further to the requirements in clause (1), an operator must:
 - a) on a daily basis, conduct rigorous back testing of the central counterparty margin model performance and overall margin coverage; and
 - b) on at least a monthly basis, conduct sensitivity analysis of the central counterparty margin model; and
 - c) on at least an annual basis, conduct an assessment of the theoretical and empirical properties of the margin model for all products that the central counterparty clears; and
 - d) in conducting sensitivity analysis of the model's coverage, take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most volatile periods that have been experienced by the markets it serves, and extreme changes in the correlations between prices; and
 - e) review the central counterparty's margin system annually.

(See Guidance for Standard 6: 'Margin', in Guidance for the FMI Standards for more detail).